

7 April 1983

TALKING POINTS FOR DDCIDomestic Situation

The surface calm continues despite widespread popular feelings of depression and frustration.

- Although most Poles are looking forward to the Papal visit in June and do not want to give the regime a pretext for cancelling it, there could be scattered protests in early May. (especially on May Day and on the 3 May constitution day as there were last year)
- The security services, well-informed on the activities of the underground, will, we believe on past form, be prepared to handle any problems.

Jaruzelski seems firmly in the saddle but is frustrated with the obstreperous Polish civilian bureaucracies; he continues to rely heavily on the military even though the outward trappings of Party authority are slowly being reestablished.

- There has been no further easing of controls since martial law was suspended on 31 December and full abolition of martial law may not come until the end of this year at the earliest.
- Jaruzelski may be trying to further engage the Church in a cooperative relationship by dangling the prospects of new concessions, such as legalizing its status.

The regime continues to grope for policies that would give the economy a boost, but the prospects for significant recovery in the next several years remain bleak.

- It hesitates to press needed austerity measures because of fear of a workers' backlash; other programs, including economic reform, face bureaucratic resistance.

US Polish Relations

US-Polish relations remain stalemated, but the Poles have eased away from the bellicose stance evident earlier this year.

- They have toned down their public criticism of the US and President Reagan and appear to have reduced harassment of the US Embassy.

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- They have allowed the UPI bureau to reopen in Warsaw.
- They apparently have not systematically carried out threats to sever exchanges arranged through USIA.

The Poles still insist that the US must act first to improve bilateral relations.

- They seem particularly interested in restoring daily flights by the Polish Airlines LOT to JFK, especially in time for the Papal visit in June.
- They will refuse agreement for a new US ambassador until such a "positive" step is made.

Status of Rescheduling

Previous Agreements

- This is Poland's third year of debt rescheduling.
 - o Western governments (the Paris Club) agreed in 1981 to reschedule 80 percent of both principal and interest due in 1981.
 - o As a sanction against the martial law regime, the governments have not allowed further debt relief.
 - o Banks rescheduled 95 percent of principal payments in both 1981 and 1982 while insisting that all interest be paid. The 1982 agreement, however, committed the banks to relend half of interest payments in the form of short-term trade credits.

Paris Club Meeting Next Week

- Representatives of State and Treasury will attend a meeting of the Paris Club beginning 11 April where Polish rescheduling will be discussed.
- Other governments are increasingly uncomfortable with the US-led position against rescheduling.
 - o Late last year the neutrals (Austria, Switzerland) and some Nordic countries considered breaking from the Paris Club to cut their own deals with the Poles.
 - o The allies have supported the US refusal, but seem increasingly restless. They believe that the refusal to reschedule gives the Poles defacto 100 percent debt relief.
 - o EC foreign minister on 1 March called for consultations with the Poles and other creditors on rescheduling.

--Warsaw is in arrears by more than \$5 billion to Western governments. Amounts still not paid or rescheduled include:

- o About \$200 million in interest under the 1981 Paris Club agreement;
 - o \$4 billion in principal and interest due in 1982;
- Poland has little ability to repay governments.
- o The earnings surplus projected by Warsaw is \$1.04 billion in 1983.
 - o This year Poland will in 1983 have to pay banks more than \$1 billion in interest and other charges under the 1981 and 1982 bank rescheduling agreements.
 - o Governments could be repaid if they lend to the Poles or if they are paid at the expense of the banks.

Negotiations with the Banks

--Warsaw has requested rescheduling of nearly all payments of principal and interest for the rest of the 1980s.

--The banks strongly object to the terms, with some US banks refusing to consider the proposal as a serious one.

- o At a 21 March meeting, [] told some banks that only a restoration of financial relations with the Western governments would lead the Poles to change their proposed terms for agreement with the banks, a self-serving position possibly designed to cause Western banks to place pressure on these governments to make new money available to Warsaw.

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